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ABSTRACT

This module is one of a set of seven prepared in conjunction with the Title I "Project to Train Volunteer Leaders to Conduct Consumer Education Courses." It is designed to be a basic text for use in making a one-hour presentation on credit. Topics include definitions of credit, advantages and disadvantages of using credit, proper uses of credit, principal kinds of credit and the relative cost of each, procedures for obtaining various kinds of credit, and the rights of borrowers and the legal protection available to them. An accompanying slide set is keyed to the text of the module. (An illustration of each slide is provided.) A multiple-choice/true-false quiz and discussion questions are also included. A listing of supplementary slides, credit counseling services, and outline on credit by attorney Linda B. Samuels are appended. (CT)

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CREDIT

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CONSUMER EDUCATION PROJECT
Project to Train Volunteer Leaders to Conduct
Consumer Education Courses
Title I, Higher Education Act of 1965
Grantee Institution: Northern Virginia Community College
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July, 1979

Consumer Education Project

This module is one of a set of seven prepared in conjunction with the Title I "Project to Train Volunteer Leaders to Conduct Consumer Education Courses." It is designed to be a basic text for use in making a one-hour presentation. Through use of the attached bibliography, a more in-depth knowledge can be acquired and the presentation expanded. For shorter presentations, portions of it can be extracted. A slide set accompanies each module and is keyed to the text of the module. For a guide to presentation skills, the reader is referred to the module entitled Leadership and Teaching Skills.

Volunteers throughout the Northern Virginia area have been trained to give presentations on the following six consumer-related topics for which modules have been developed:

Rights and Responsibilities in the Marketplace
How to Buy Goods and Services
Personal Money Management
Legal Aspects of the Marketplace
Credit
Sources of Consumer Assistance

The services of these volunteers are available to citizen groups, schools, and organizations through the state and local consumer affairs offices listed in the paragraph below. The purpose of this program is to increase consumer awareness and raise the level of individual consumer competency among our citizens.

The grant establishing this project was awarded to Northern Virginia Community College by the State Agency for Title I under the Higher Education Act of 1965. The program, however, is a cooperative effort involving the Consortium for Continuing Higher Education in Northern Virginia, George Mason University, the University of Virginia, Virginia Polytechnic Institute and State University, as well as the Virginia Office of Consumer Affairs, the Alexandria Office of Consumer Affairs, the Arlington County Office of Consumer Affairs, the Fairfax County Department of Consumer Affairs, and the Prince William County Office of Consumer Affairs.

For additional information, call or write:

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CREDIT

VOLUNTEER LEADER'S GUIDE

CREDIT

Introduction

This guide is intended to provide a framework around which you can build your presentation. While it is complete enough for you to read verbatim and make a passable talk on consumer credit, your presentation will be more interesting if you add to it from your own knowledge and background. A selected bibliography is provided for your use in researching your subject and expanding this guide. You should keep abreast of new developments in consumer credit and incorporate these in your presentation when you can.

Pre-presentation Arrangements

Check the facility in which your presentation is to be made to insure that:

1. Seating is adequate and as comfortable as possible.
2. All audio-visual equipment and materials are present and in proper working order.
3. You know where the switches for lights and electrical outlets are, and how they work.
4. Lighting and projection equipment operate properly.
5. Handout materials are available in sufficient quantities for the prospective audience.
6. Others involved in the presentation, either as technicians or guest speakers, know how they fit into the presentation schedule.

Presentation Outline

I. TITLE: Credit

II. OBJECTIVES: Upon completion of this seminar, participants will be able to:

A. Define credit

B. List the advantages and disadvantages of using credit.

C. Name some proper uses of credit.

D. Name the principal kinds of credit and give the relative cost of each.

E. Describe procedures for obtaining various kinds of credit.

F. Explain the rights of borrowers and the legal protection available to them.

III. LENGTH: 1 hour (This time may be increased or decreased according to the needs of the audience, your ability as an instructor, and the time available.)

*IV. AUDIO-VISUAL AIDS:

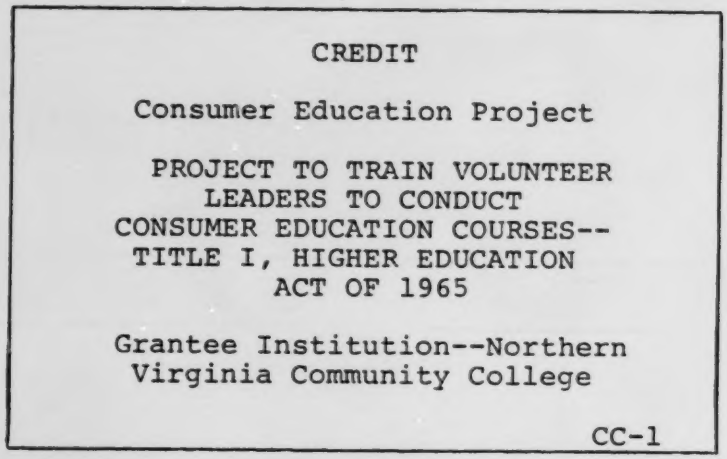
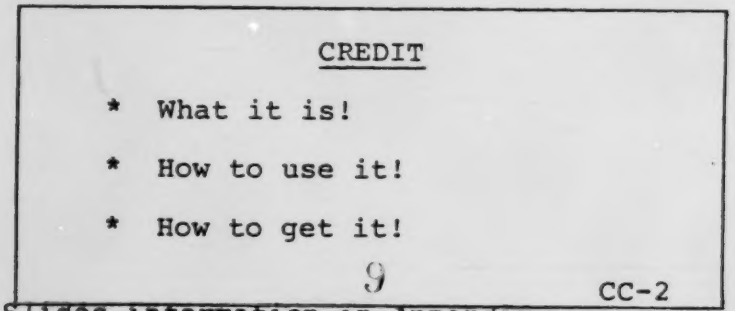
A. Slide set, "Credit," consisting of 55 slides.

B. Thirty-five millimeter Carousel projector.

C. Chalkboard, chalk and eraser.

V. TEACHING PROCEDURE:

Note: In the following material instructions are single-spaced and the text of the presentation is double-spaced..

Special Instructions	Instructor Reference
Write your name on the chalkboard	A. Introduction
Turn on slide projector Show slide CC-1 Project Slide	
Show slide CC-2 Credit	

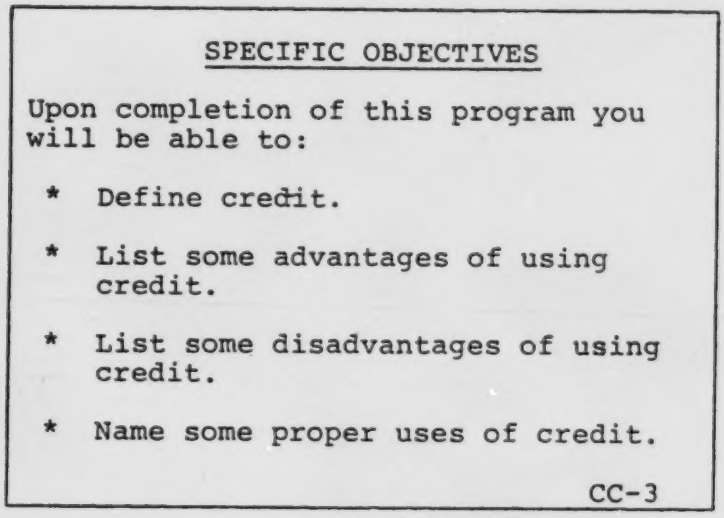
*Note: See Supplementary Slides information in Appendix.

1. Introduce yourself and give the title of your presentation. If the format of your presentation is to be a discussion and the audience is small enough, you may want to conduct self-introductions. If you do, you should ask each participant to give his name and a little information about his background.

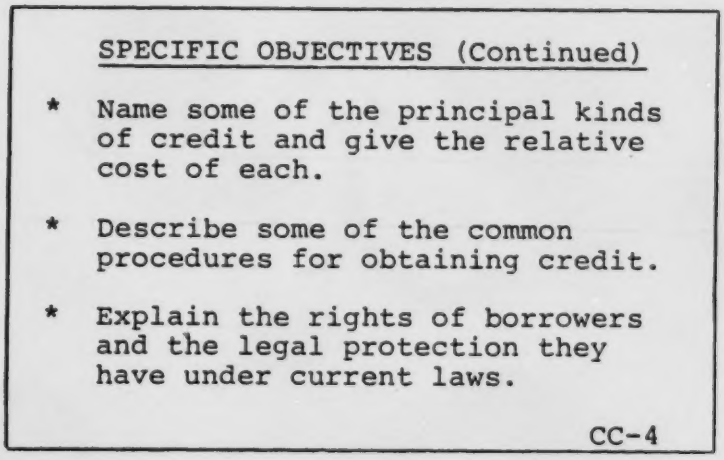
2. Briefly outline your qualifications to discuss this particular subject.

3. Explain the importance of understanding consumer credit for consumers.

Show slide CC-3
Specific Objectives


SPECIFIC OBJECTIVES
Upon completion of this program you will be able to:
* Define credit.
* List some advantages of using credit.
* List some disadvantages of using credit.
* Name some proper uses of credit.
CC-3

Show slide CC-4
Specific Objectives
(Continued)


SPECIFIC OBJECTIVES (Continued)
* Name some of the principal kinds of credit and give the relative cost of each.
* Describe some of the common procedures for obtaining credit.
* Explain the rights of borrowers and the legal protection they have under current laws.
CC-4

4. State the specific objectives of your presentation in terms of what the participants will be able to do upon its completion.

5. Explain any evaluation procedure you plan to use to measure accomplishment of these objectives. The procedure you use should be non-threatening to the participants and designed to measure your effectiveness as a presenter rather than their proficiency as learners. If you wish to use a quiz to summarize your presentation, a sample is provided at the end of the module.

6. Set the tone for your presentation.

a. Encourage questions and discussion.

b. Explain the availability of handouts and how they will be distributed.

c. Tell whether or not note-taking is desirable.

B. Presentation

Show slide CC-5
Consumer Credit Is

CONSUMER CREDIT IS

* Money made available to a consumer in return for his promise to repay at a later time or over a period of time.

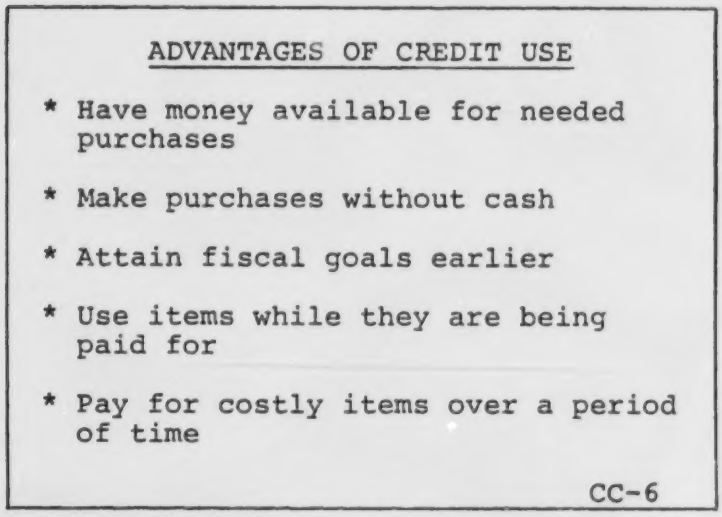
* Goods or services supplied to a consumer on the strength of his promise to pay for them at a later time or over a period of time.

CC-5

1. Consumer Credit may be defined as any extension of the use of money or the title to goods, by a lender or a vendor to a consumer, without an immediate exchange in cash or in kind. It is usually characterized by a charge for the use of the money or the money value of the goods involved. This

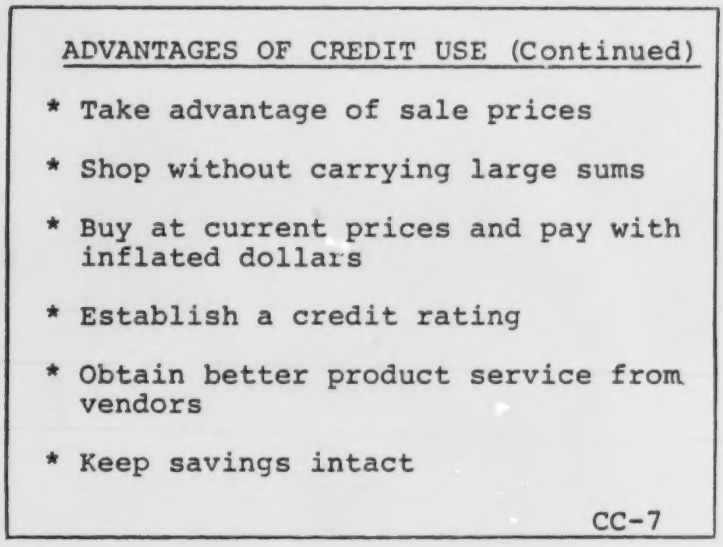
charge is variously referred to as the interest, carrying charge, or finance charge.

Show slide CC-6
Advantages of Credit Use


ADVANTAGES OF CREDIT USE
* Have money available for needed purchases
* Make purchases without cash
* Attain fiscal goals earlier
* Use items while they are being paid for
* Pay for costly items over a period of time
CC-6

2. Nearly everyone uses credit at least occasionally.

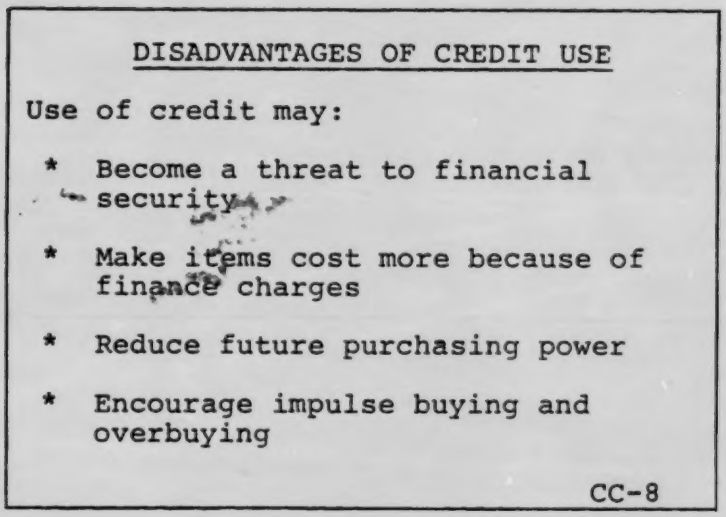
Show slide CC-7
Advantages of Credit (Continued)


ADVANTAGES OF CREDIT USE (Continued)
* Take advantage of sale prices
* Shop without carrying large sums
* Buy at current prices and pay with inflated dollars
* Establish a credit rating
* Obtain better product service from vendors
* Keep savings intact
CC-7

3. The advantages of using credit seem to be many. Through credit, consumers are enabled to buy needed goods when they do not have sufficient cash

to pay for them immediately. Credit makes it unnecessary for consumers to carry large sums of cash to make purchases. It permits them to spread payment for costly items over a period of time, and enables them to use items while they are being paid for rather than after they have saved enough money to pay cash. The use of credit also makes it possible for consumers to take advantage of sales, buy at current prices and pay later with inflated dollars, establish a credit record so that they can borrow in emergencies, obtain better product service from vendors and keep their savings intact.

Show slide CC-8
Disadvantages of
Credit Use


DISADVANTAGES OF CREDIT USE
Use of credit may:
* Become a threat to financial security
* Make items cost more because of finance charges
* Reduce future purchasing power
* Encourage impulse buying and overbuying
CC-8

Show slide CC-9
Disadvantages of
Credit Use
(Continued)

DISADVANTAGES OF CREDIT USE (Continued)

* Result in overextension which can lead to:
  - Entrapment on an installment payment treadmill
  - Foreclosure on real property
  - Repossession of purchased goods
  - Garnishment of wages
  - Bankruptcy

CC-9

4. Credit use can also have many disadvantages. It makes goods more costly. Extensive and careless use of credit can result in entrapment on an installment payment treadmill and limited options for the use of future income. Easy credit often encourages impluse buying or overbuying and such abuses of credit can lead to the loss of the consumer's home, repossession by the vendor of goods purchases, garnishment of the consumer's wages, and eventually to bankruptcy. Overextension can lead to a poor credit rating which will make it difficult to obtain credit.

Show slide CC-10
Cartoon--Buy Now
Pay Later

"For heaven's sake Gladys, we've already got a house full of things for which it is now later!"

[From The Wall Street Journal, Nov. 13, 1973.]

CC-10

Show slide CC-11
Proper Uses of Credit

PROPER USES OF CREDIT

* Purchase of long-lasting assets:
  - Home
  - Automobile
  - Furniture
  - Home improvement or upkeep

CC-11

Show slide CC-12
Proper Uses of Credit
(Continued)

PROPER USES OF CREDIT (Continued)

* Education
* Emergencies
* Debt consolidation

CC-12

5. The advantages of credit use outweigh the disadvantages only when credit is properly used. Generally accepted, proper uses include such things as the purchase of long-lasting assets which the consumer might otherwise not be able to afford; emergencies which require immediate cash, goods, or services; and debt consolidation when changes in financial status or involuntary overextension occur. If one finds himself overextended, he may wish to contact a Consumer Financial Counseling and Educational Service in Virginia. These non-profit agencies provide free counseling to families and individuals experiencing financial difficulties. See Appendix A. Credit should not be used to pay daily expenses such as those for food, clothing, utilities and entertainment.

Show slide CC-13
Cartoon--Time Payment

CARTOON

Man and woman by side of road with obviously dilapidated and broken down car, flares, hood up, smoking.

Woman says to man:

"And the payments have two more years to go."

CC-13

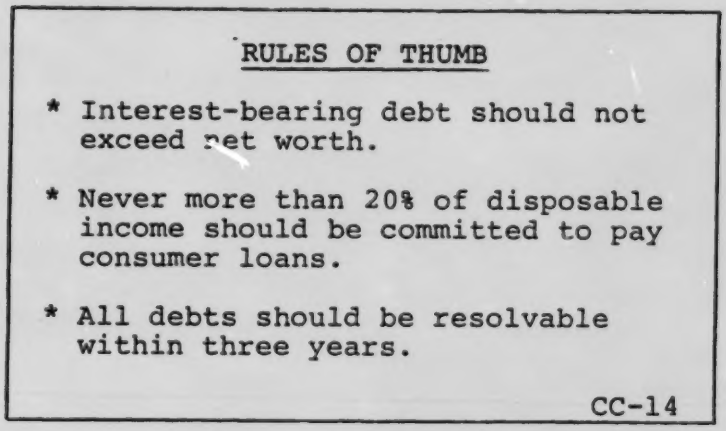
6. Overextension is not a problem when the consumer sets reasonable debt limits. Prudent consumers will ask themselves three questions before contracting further indebtedness:

a. Does my desire or need for this item justify being in debt for the period of time required to pay for it?

b. Will the additional debt make it difficult for me to pay other debts?

c. Will my projected income for the period of indebtedness be sufficient to cover payments on all debts as well as my living expenses?

Show slide CC-14
Rules of Thumb


RULES OF THUMB
* Interest-bearing debt should not exceed net worth.
* Never more than 20% of disposable income should be committed to pay consumer loans.
* All debts should be resolvable within three years.
CC-14

NOTE: Check to be sure that your audience understands the terminology used in the foregoing and succeeding discussions. You may find it necessary to define such terms as debt consolidation, net worth, disposable income, interest-bearing debt, and consumer loans.

7. Several rules of thumb for debt limitation should be observed. The consumer's interest-bearing indebtedness, exclusive of his home mortgage, should not exceed his net worth, exclusive of the value of his home. No more than twenty percent of the consumer's disposable income should be obligated to pay consumer loans, and his total indebtedness should not exceed an amount which can be paid within a three year period.

Show slide CC-15
Debt Limit Formula

DEBT LIMIT FORMULA

* Previously committed monthly debt payments

- Automobile _____
- Department stores _____
- Credit cards _____
- Cash loans _____

TOTAL _____ (A)

* Monthly disposable income

- Net salary after deductions _____
- Other income _____

TOTAL _____ (B)

$\frac{A}{B}$ = % disposable income committed

CC-15

8. A simple formula can be used to determine the portion of disposable income already committed to pay debts. By dividing total monthly debt payments by total disposable income, the percentage of income already committed can be determined.

9. Decreasing savings, delinquent bills, overdrafts and debt consolidation loans are all signals of possible overextension.

Show slide CC-16
Types of Credit

TYPES OF CREDIT

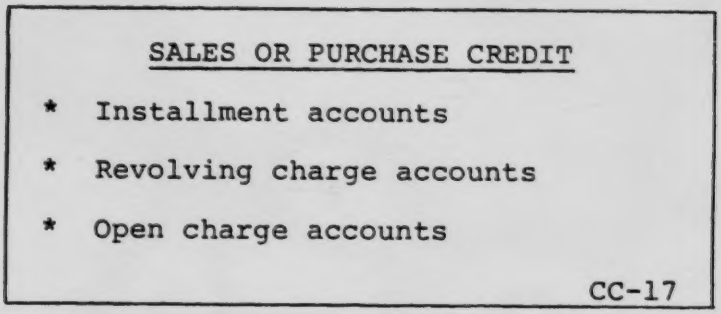
* Sales or purchase credit
* Cash loan or borrowing credit

CC-16

10. While credit is basically the use of someone elses money in return for a fee, there are many schemes for granting credit to consumers. These fall into two main categories: sales or purchase credit, and cash loan or borrowing credit.

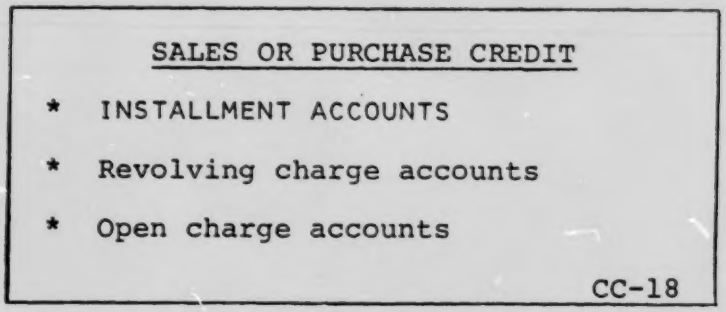
11. It is important to choose credit with repayment terms which are suited to your needs.

Show slide CC-17
Sales or Purchase Credit



12. In sales or purchase credit schemes, goods are received by the consumer to be paid for later. The most popular of these in current use are: installment accounts, revolving charge accounts, and open charge accounts.

Show slide CC-18
Sales or Purchase Credit - Installment Accounts



a. Installment accounts permit the consumer to pay for goods purchased in a fixed number of periodic payments to which the finance charge has been added. Title to the goods purchased is usually retained by the seller as security for the account, and the loan agreement usually precludes any disposition of the goods until they are paid for. The buyer signs a note, an installment sales contract and a security agreement.

The main sources of this kind of credit are department stores and other retail merchants.

Show slide CC-19
Sales or Purchase Credit - Revolving Charge Accounts

SALES OR PURCHASE CREDIT

* Installment accounts
* REVOLVING CHARGE ACCOUNTS
* Open charge accounts

CC-19

b. Revolving charge accounts permit consumers to purchase goods from a seller up to a preset credit limit. Payments on the account are calculated either as a percentage of the balance due on the billing date, or as a fixed sum payable on the billing date as long as there is a balance due on the account. Finance charges are based on the unpaid balance, but they may vary according to how the unpaid balance is determined.

Show slide CC-20
Computation of Finance Charge: Previous Balance

COMPUTATION OF FINANCE CHARGE: PREVIOUS BALANCE

Closing balance, September 2	$100.00
Payments, September 17	50.00
Ending balance	50.00
Balance finance charge is based on	100.00
Finance charge for September (1½% per month)	1.50
Credit for partial payment	None

CC-20

Show slide CC-21
Computation of
Finance Charge:
Average Daily Balance

COMPUTATION OF FINANCE CHARGE: AVERAGE DAILY BALANCE	
Closing balance, September 2	$100.00
Payments, September 17	50.00
Ending balance	50.00
Balance finance charge is based on	75.00
Finance charge for September (1½% per month)	1.13
Credit for partial payment	partial
	CC-21

Show slide CC-22
Computation of
Finance Charge:
Adjusted Balance

COMPUTATION OF FINANCE CHARGE: ADJUSTED BALANCE	
Closing balance, September 2	$100.00
Payments, September 17	50.00
Ending balance	50.00
Balance finance charge is based on	50.00
Finance charge for September (1½% per month)	.75
Credit for partial payment	complete
	CC-22

It may be the amount due on the billing date before any payments and returns are credited to the account, or the amount due on the billing date after payments and credits for returns are entered or, the average daily balance over the billing period. There is usually no finance charge if the entire balance is paid in one billing period. The principal sources of this kind of credit are department stores and bank credit card plans.

Show slide CC-23
Sales or Purchase Credit -
Open Charge Accounts

SALES OR PURCHASE CREDIT
* Installment accounts
* Revolving charge accounts
* OPEN CHARGE ACCOUNTS
CC-23

c. Open charge accounts require consumers to pay for goods purchased within a certain period of time after billing, usually ten to thirty days. There is no credit charge if the account is paid within the time limit, but goods in stores that provide this service may be priced higher to pay for it. Major sources of this kind of credit are retail merchants, and travel and entertainment agencies.

Show slide CC-24
Sources and Cost
of Sales Credit

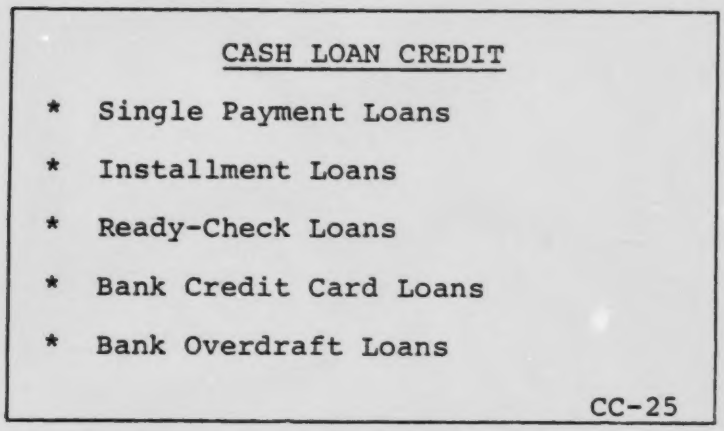
SOURCES AND COST OF SALES CREDIT	
* Retail merchants	1.5% per month 18% per year
* Bank credit cards	1.5% per month 18% per year
* Travel and entertainment agencies	0 to 1.5% per month 18% per year
	CC-24

d. As previously mentioned, sales credit is extended by department stores, appliance dealers, and service agencies for the convenience of their customers.

Some of these have their own credit departments, but the use of bank credit card plans is becoming more and more common. The bank credit cards have added an extended payment program for large purchases. The cost of this kind of credit, regardless of the source, ranges from nothing when the account is paid within the billing period, to 1.5% per month when the acccunt is allowed to run.

e. Most sales or purchase credit extended by sellers are purchased by finance companies or banks.

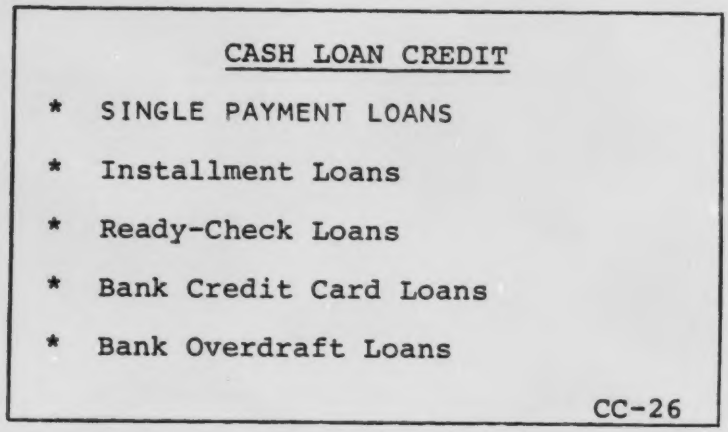
Show slide CC-25
Cash Loan Credit



13. In cash loan or borrowing credit plans, cash is delivered to the borrower or his assignee in return for his promise to repay the loan plus finance charges in accordance with terms established by the lender. They may be secured. The

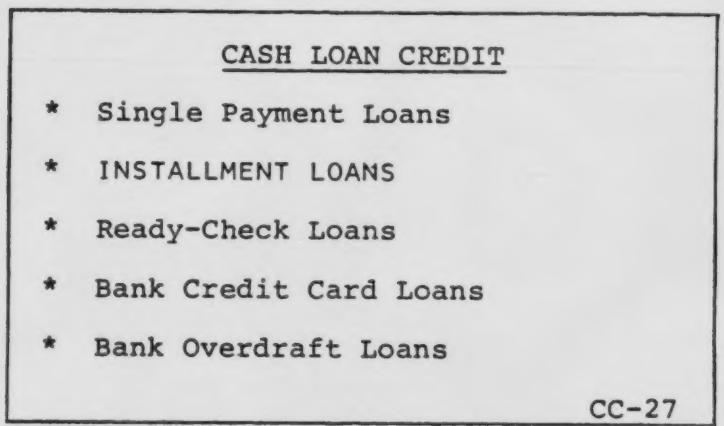
most commonly used plans are single payment loans, installment loans, ready-check loans, bank credit card loans, and bank overdraft loans.

Show slide CC-26
Cash Loan Credit -
Single Payment Loans



a. Single payment loans are made with the understanding that the borrower will repay the sum provided and the finance charge in a lump sum within a certain period of time - usually thirty, sixty, or ninety days - or upon demand. The borrower may have to pledge some kind of collateral and/or sign a promissory note to get approval for the loan.

Show slide CC-27
Cash Loan Credit -
Installment Loans



b. Installment loans, as the name implies, are cash loans which are repaid in a series of installments. Interest is usually included in the installments.

Show slide CC-28
Cash Loan Credit -
Ready-Check Loans

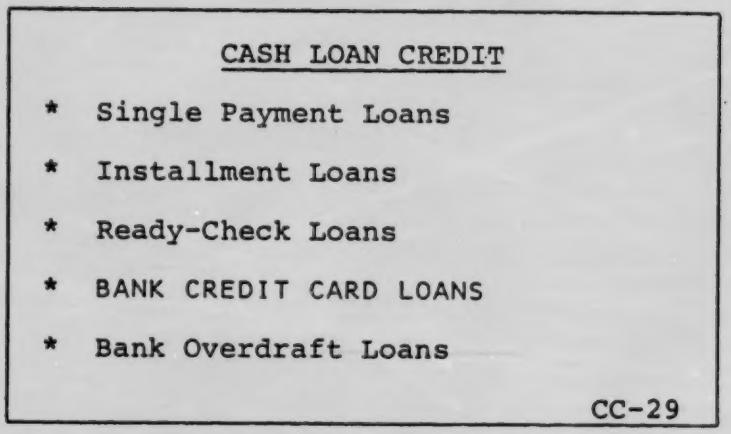
CASH LOAN CREDIT

* Single Payment Loans
* Installment Loans
* READY-CHECK LOANS
* Bank Credit Card Loans
* Bank Overdraft Loans

CC-28

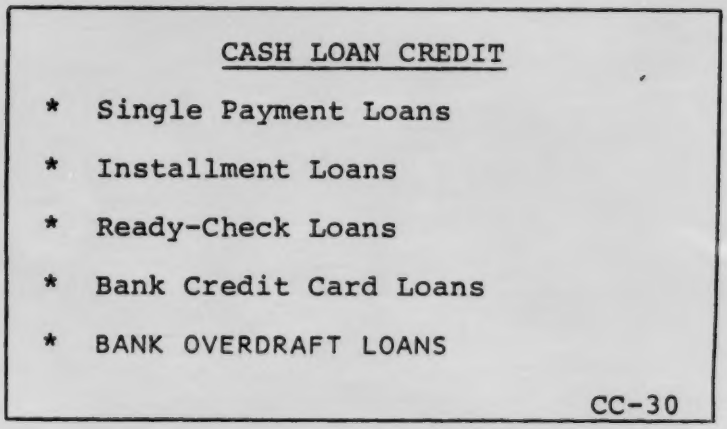
c. Ready-check loans permit the borrower to write his own loan. By arrangement with the lending institution, he is issued a book of special checks which he may use as though they were on his regular checking account. Presentation of one or more of these checks activates the account, and repayment is made in the same way that installment loans are repaid. The amount of the payment required is determined by the amount of the loan and the interest charged.

Show slide CC-29
Cash Loan Credit -
Bank Credit Card Loans



d. Bank credit card loans allow the borrower to obtain cash from the bank up to a preset cash loan limit. The loan is repaid in the same way that other charges to the credit card account are paid. Interest is charged on the unpaid balance on the billing date of the account.

Show slide CC-30
Cash Loan Credit -
Bank Overdraft Loans



e. Bank overdraft loans are automatic loans made when a bank account holder overdraws his account. By prior arrangement with the bank, any overdraft on the account will be honored by the

bank and treated as an installment loan. Interest and the amount of the installment payments are based on the unpaid balance in the account on the date payment is due. The total amount of the overdrafts allowable under these plans is usually limited by the bank.

Show slide CC-31
Sources and Cost
of Cash Loan Credit

	SOURCES AND COST OF CASH LOAN CREDIT	
	* Commercial Banks	9 to 18% per annum
	* Credit Unions	8 to 12% per annum
	* Savings & Loan Associations	7 to 10% per annum
	* Insurance Companies	4 to 8% per annum
**	* Finance Companies	24 to 30% per annum
	* Sales Finance Companies	16 to 24% per annum
	* Second Mortgage Companies	11% and up
**	* Pawnbrokers	36 to 120% per annum
		CC-31

14. Cash loans are made by a variety of financial institutions.

**These are the current figures, which are different from what are on the slides.

Show slide CC-32
Sources and Cost
of Cash Loan Credit -
Commercial Banks

		SOURCES AND COST OF CASH LOAN CREDIT	
	*	COMMERCIAL BANKS	9 to 18% per annum
	*	Credit Unions	8 to 12% per annum
	*	Savings & Loan Associations	7 to 10% per annum
	*	Insurance Companies	4 to 8% per annum
**	*	Finance Companies	24 to 30% per annum
	*	Sales Finance Companies	16 to 24% per annum
	*	Second Mortgage Companies	11% and up
**	*	Pawnbrokers	36 to 120% per annum

CC-32

a. Commercial banks make collateral and passbook loans to medium and low-risk customers at relatively low interest rates. Repayment of these loans is usually on the installment plan, and the interest is sometimes deducted from the principal of the loan. When this is done, the actual cash received by the borrower is less than the face value of the note. Interest rates range from nine to eighteen percent per year.

**See page 21.

Show slide CC-33
Sources and Cost
of Cash Loan Credit -
Credit Unions

SOURCES AND COST OF CASH LOAN CREDIT			
	*	Commercial Banks	9 to 18% per annum
	*	CREDIT UNIONS	8 to 12% per annum
	*	Savings & Loan Associations	7 to 10% per annum
	*	Insurance Companies	4 to 8% per annum
**	*	Finance Companies	24 to 30% per annum
	*	Sales Finance Companies	16 to 24% per annum
	*	Second Mortgage Companies	11% and up
**	*	Pawnbrokers	36 to 120% per annum
			CC-33

b. Credit unions make loans to their members at very reasonable rates ranging from 8 to 12% per year. Collateral is seldom required, although loans are cheaper when secured by the member's shares. Because credit unions are usually sponsored by a company or governmental organization, repayment of the loan can often be made by payroll deduction. Credit unions use the actuarial method of computing credits for prepayment which is more advantageous for the

**See page 21.

borrower than the rule of 78's which is used by most lenders.

Show slide CC-34 Sources and Cost of Cash Loan Credit - Savings and Loan Associations

SOURCES AND COST OF CASH LOAN CREDIT		
	* Commercial Banks	9 to 18% per annum
	* Credit Unions	8 to 12% per annum
	* SAVINGS & LOAN ASSOCIATIONS	7 to 10% per annum
	* Insurance Companies	4 to 8% per annum
**	* Finance Companies	24 to 30% per annum
	* Sales Finance Companies	16 to 24% per annum
	* Second Mortgage Companies	11% and up
**	* Pawnbrokers	36 to 120% per annum

CC-34

c. Savings and loan associations make passbook loans to depositors, but their major activity is in real estate and home loans. Savings and loans often charge 1% more than the passbook interest for the loan. Collateral is usually in the form of a mortgage, and interest rates are 7 to 10% or more.

**See page 21.

Show slide CC-35
Sources and Cost
of Cash Loan Credit -
Insurance Companies

SOURCES AND COST OF CASH LOAN CREDIT		
	* Commercial Banks	9 to 18% per annum
	* Credit Unions	8 to 12% per annum
	* Savings & Loan Associations	7 to 10% per annum
	* INSURANCE COMPANIES	4 to 8% per annum
**	* Finance Companies	24 to 30% per annum
	* Sales Finance Companies	16 to 24% per annum
	* Second Mortgage Companies	11% and up
**	* Pawnbrokers	36 to 120% per annum

CC-35

d. Insurance policy loans are probably the lowest cost loans available. Policy holders can borrow up to 95% of the face value of their policies at interest rates in the 4 to 8% per annum range. While the loan is outstanding, the face value of the policy is reduced by the amount of the balance due if a loss occurs under the terms of the policy. There is no time limit for repayment of these loans and borrowers sometimes

**See page 21.

neglect paying them thus reducing the insurance protection they have contracted for.

Show slide CC-36
Sources and Cost of Cash Loan Credit - Finance Companies

		SOURCES AND COST OF CASH LOAN CREDIT	
	*	Commercial Banks	9 to 18% per annum
	*	Credit Unions	8 to 12% per annum
	*	Savings & Loan Associations	7 to 10% per annum
	*	Insurance Companies	4 to 8% per annum
**	*	FINANCE COMPANIES	24 to 30% per annum
	*	Sales Finance Companies	16 to 24% per annum
	*	Second Mortgage Companies	11% and up
**	*	Pawnbrokers	36 to 120% per annum

CC-36

e. Consumer finance or small loan companies tend to serve high-risk customers at high interest rates from 24 to 30% per annum. These companies often charge a fee for early repayment of their loans and require collateral or a cosigner to secure them. The amounts and the length of time for repayment of loans from this source are regulated by state law.

**See page 21.

Show slide CC-37
Sources and Cost
of Cash Loan Credit -
Sales Finance Companies

		SOURCES AND COST OF CASH LOAN CREDIT	
	*	Commercial Banks	9 to 18% per annum
	*	Credit Unions	8 to 12% per annum
	*	Savings & Loan Associations	7 to 10% per annum
	*	Insurance Companies	4 to 8% per annum
**	*	Finance Companies	24 to 30% per annum
	*	SALES FINANCE COMPANIES	16 to 24% per annum
	*	Second Mortgage Companies	11% and up
**	*	Pawnbrokers	36 to 120% per annum

CC-37

f. Sales finance companies also tend to serve high-risk borrowers. Their interest rates range from 16 to 24% per year. A prime example is the finance company which works in conjunction with an automobile dealer. While the loan is arranged through the dealer, the finance company holds the note and the title to the car until the note is paid. These companies frequently charge fees for early repayment of their notes.

**See page 21.

Show slide CC-38
Sources and Cost
of Cash Loan Credit -
Second Mortgage Companies

SOURCES AND COST OF CASH LOAN CREDIT	
* Commercial Banks	9 to 18% per annum
* Credit Unions	8 to 12% per annum
* Savings & Loan Associations	7 to 10% per annum
* Insurance Companies	4 to 8% per annum
** * Finance Companies	24 to 30% per annum
* Sales Finance Companies	16 to 24% per annum
* SECOND MORTGAGE COMPANIES	11% and up
** * Pawnbrokers	36 to 120% per annum

CC-38

g. There are a growing number of lending institutions making second mortgage loans. The collateral required for these loans is the home owner's equity in his home or real property, and relatively high rates of interest are charged. They usually mature in less than ten years.

**See page 21.

Show slide CC-39
Loan rates . . .

LOAN RATES ARE ADVERTISED.

SHOP AROUND FOR THE BEST ONE.

CC-39

Show slide CC-40
Sources and Cost
of Cash Loan Credit -
Pawnbrokers

SOURCES AND COST OF CASH LOAN CREDIT

*	Commercial Banks	9 to 18% per annum
*	Credit Unions	8 to 12% per annum
*	Savings & Loan Associations	7 to 10% per annum
*	Insurance Companies	4 to 8% per annum
** *	Finance Companies	24 to 30% per annum
*	Sales Finance Companies	16 to 24% per annum
*	Second Mortgage Companies	11% and up
** *	PAWNBROKERS	36 to 120% per annum

CC-40

h. Pawnbrokers charge very high rates of interest and rarely loan more than 60% of the market value of the security. If the loan is not repaid, the security will be forfeited.

i. Beware of loan sharks and debt consolidators who charge a fee for their service.

**See page 21.

Show slide CC-41
Cost of Credit

COST OF CREDIT

* Finance Charge
  - Interest rate
  - Other fees
* Repayment Terms
  - Duration of the Loan
  - Payment Schedule

CC-41

15. Every consumer should know how to determine the cost of credit because it is often a major part of the cost of goods purchased. The cost of credit includes not only the finance charge or interest rate, but other fees charged by the lender, such as application fees, processing fees, and premiums on credit life insurance. Costs are also affected by the length of time required to repay the note and the timing and size of the payments.

Show slide CC-42
Annual Percentage Rate

ANNUAL PERCENTAGE RATE

$$APR = \frac{200 \times F \times N}{L \times T}$$

F = Finance charge in dollars

N = Number of payments per year

L = Amount borrowed

T = Total number of payment Plus 1

CC-42

Show slide CC-43
Calculation Example

CALCULATION EXAMPLE

Assume a loan is for $1,500 for ten months, payable monthly, with interest of $100 and fees of $20.

F = $120

N = 10

L = $1,500

T = 10 + 1 = 11

$$APR = \frac{200 \times 120 \times 10}{1500 \times 11} = \frac{240,000}{16,500} = 14.55\%$$

16. The annual percentage rate (APR) can be computed, when the dollar amount of the finance charge is known, by using this simple formula. Since the APR is the annual cost of finance charges computed as a percentage of the amount borrowed on a yearly basis, it can be used to compare competing credit offers and methods for amortizing loans.

Show slide CC-44
Credit Worthiness

CREDIT WORTHINESS

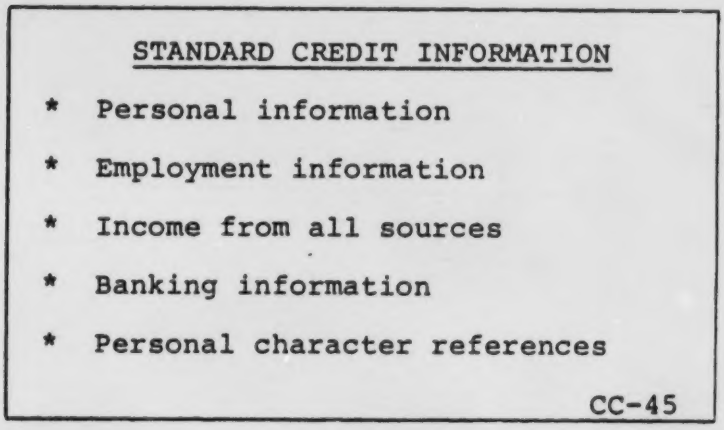
Credit Worthiness is measured by

* Character--Trustworthiness and willingness to repay
* Capacity--Ability to repay
* Capital--Net worth including collateral

CC-44

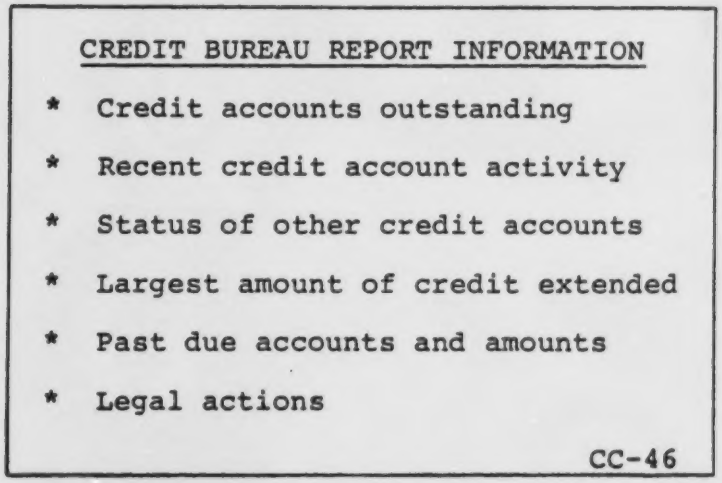
17. Lenders choose borrowers from whom they can reasonably expect to get their money back. What they consider "reasonable" or an "acceptable level of risk" is the function of several factors: the availability of money, the policy of the lending institution, and the clientele served. Assuming that money is available and that the policy of the lender is to make the kind of loan requested, the lender will base his decision on the borrower's record of willingness to repay previous extensions of credit, his ability to pay as determined by his income and obligations, and evidence that he handles his finances well based on an estimate of his net worth. Information about these things is obtained through the credit application.

Show slide CC-45
Standard Credit
Information



a. The lender has the right to ask a prospective borrower for certain personal information. Naturally, the person's name, address and Social Security number are needed, and since the number of years he has lived at the address given can be an important indicator of stability, this too may be asked. The kind of employment and the number of years the applicant has worked at that particular job are legitimate information, as well as his salary and any other income he has. Where he banks and the status of his checking, savings, and loan accounts there, are important factors in determining credit worthiness. He can also be asked to give either credit or character references as a cross check on his credit record.

Show slide CC-46
Credit Bureau Report Information


CREDIT BUREAU REPORT INFORMATION
* Credit accounts outstanding
* Recent credit account activity
* Status of other credit accounts
* Largest amount of credit extended
* Past due accounts and amounts
* Legal actions
CC-46

b. In addition to the credit application, the lender may require a personal interview if the amount requested is large; and all credit information will be checked, either by phone or through a credit bureau. The credit bureau provides a history of the applicant's credit activity including outstanding accounts, the largest amount of credit ever extended, a list of past due accounts and the amounts due, and a record of legal suits.

Show slide CC-47
Consumer Protection Laws

CONSUMER PROTECTION LAWS

* Equal Credit Opportunity Act
* Fair Credit Reporting Act
* Consumer Credit Protection Act
* Fair Credit Billing Act
* Unsolicited Credit Card Act

CC-47

18. In recent years we have heard a great deal about legal protection for consumer borrowers. Some laws, such as the legal regulation of interest rates, have been around for a number of years, but there are several new laws which should be understood and used to protect consumers.

Show slide CC-48
Consumer Protection Laws - Equal Credit Opportunity Act

CONSUMER PROTECTION LAWS

* EQUAL CREDIT OPPORTUNITY ACT
* Fair Credit Reporting Act
* Consumer Credit Protection Act
* Fair Credit Billing Act
* Unsolicited Credit Card Act

CC-48

a. The Equal Credit Opportunity Act is designed to insure that credit is not denied to prospective borrowers for discriminatory reasons. According to the act the only personal information a lender can legally require is that pertaining to the individual's income from all sources, and the individual's past credit history. The lender may not ask questions about the loan applicant's spouse unless the spouse is to be a party to the loan, and a cosigner cannot be required if such a requirement would be discriminatory. The thrust of the act is to force creditors to consider only the individual applicant's income and credit records when granting loans. To this end, couples with joint bank accounts or joint debts can request that information about these accounts

be a part of the credit history for each person.

Show slide CC-49
Cartoon Discouraging Application for Credit

CARTOON

Pregnant woman applying at credit bureau. Credit manager, studying file, says

"Aren't you going to stay home and be a good mother?"

CC-49

It is illegal to discourage anyone from making a credit application. If creditors use a credit scoring system to determine eligibility for loans, it must be statistically sound and may not assign points on the basis of age, sex, or marital status. When credit is denied for some legitimate reason, the lender must notify the applicant as soon as possible after the decision to deny is made; and must maintain records of the denial and the reason(s) therefor.

Show slide CC-50
Consumer Protection Laws - Fair Credit Reporting Act

CONSUMER PROTECTION LAWS

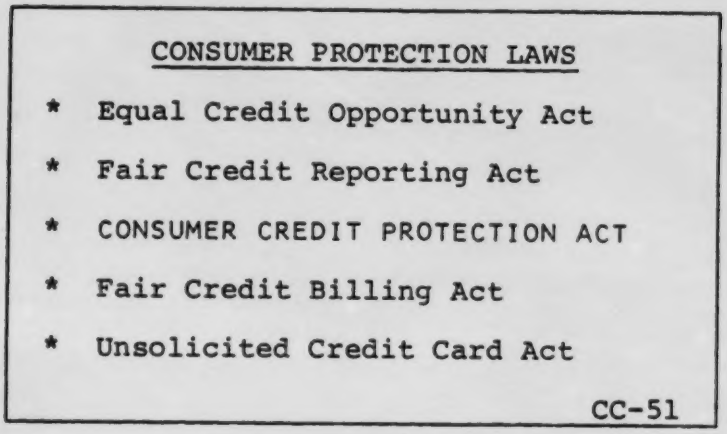
* Equal Credit Opportunity Act
* FAIR CREDIT REPORTING ACT
* Consumer Credit Protection Act
* Fair Credit Billing Act
* Unsolicited Credit Card Act

CC-50

b. The Fair Credit Reporting Act was passed to protect consumers from injury by erroneous credit information. Credit bureaus are enjoined to delete incorrect information in an individual's file and notify anyone who has received such information of the error. Persons denied credit can request the name and address of anyone who issues a detrimental credit report on them. They are entitled to know the reasons for denial of credit and may see or be told the information contained in their credit files. They also have the right to contest information which a credit bureau verifies as correct, and they are entitled to know the bureau's reason for such verification and who made it. Credit-related complaints of one hundred words or less prepared by an individual and submitted to the credit bureau must be made a part of his credit file. Consumers may file complaints against credit-reporting agencies with the Federal Trade Commission or they may sue if they are injured by the agency's actions and,

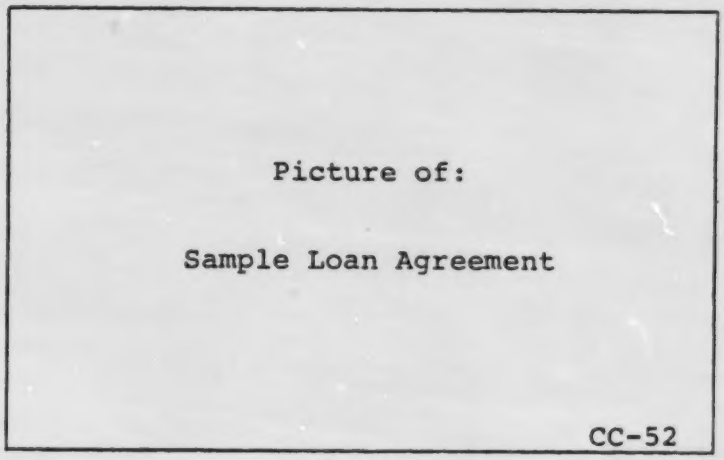
if successful, recover damages and up to $1,000 in attorney's fees and court costs.

Show slide CC-51
Consumer Protection Laws - Consumer Credit Protection Act


CONSUMER PROTECTION LAWS
* Equal Credit Opportunity Act
* Fair Credit Reporting Act
* CONSUMER CREDIT PROTECTION ACT
* Fair Credit Billing Act
* Unsolicited Credit Card Act
CC-51

c. The Consumer Credit Protection Act, sometimes called the Truth in Lending Law, seeks to protect consumers from making contracts that they do not fully understand. According to this act, loan agreements must be in written form and a copy must be provided for the borrower.

Show slide CC-52
Sample Loan Agreement



Show slide CC-53
Content of Loan Agreements

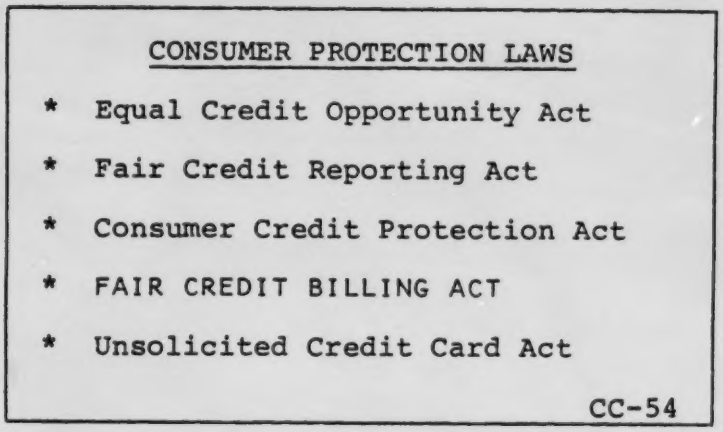
CONTENT OF LOAN AGREEMENTS

* Must be written
* Must contain
  - Total finance charge
  - Annual percentage rate
  - Date finance charge begins
  - The number of payments, their amounts and due date
  - Total of all payments
  - Penalties for default, late, or early payment
  - Nature of security

CC-53

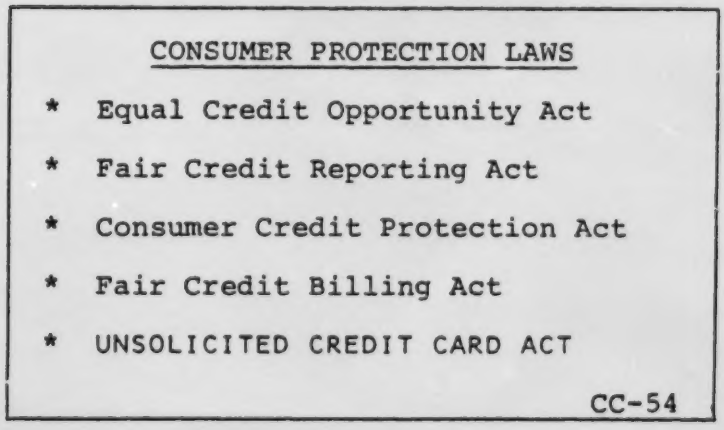
The content of the agreement must include: the total finance charge; the annual rate of interest; the beginning date of the finance charge or interest period; the number of payments, and their amount and due date; the total of all payments; penalties for default or late payment; penalties for payment of the note ahead of schedule; and a description of any collateral involved.

Show slide CC-54
Consumer Protection Laws -
Fair Credit Billing Act


CONSUMER PROTECTION LAWS
* Equal Credit Opportunity Act
* Fair Credit Reporting Act
* Consumer Credit Protection Act
* FAIR CREDIT BILLING ACT
* Unsolicited Credit Card Act
CC-54

d. The Fair Credit Billing Act enables the consumer to protest questionable amounts on his bill without harassment from the creditor. He may choose not to pay questionable amounts or amounts due on defective merchandise, but must be aware that, if he is wrong, he will have to pay any accrued interest when the dispute is settled. His account cannot be closed during the dispute, and he may file complaints of violations of this act with the Federal Trade Commission.

Show slide CC-55
Consumer Protection Laws -
Unsolicited Credit
Card Act


CONSUMER PROTECTION LAWS
* Equal Credit Opportunity Act
* Fair Credit Reporting Act
* Consumer Credit Protection Act
* Fair Credit Billing Act
* UNSOLICITED CREDIT CARD ACT
CC-54

e. The Unsolicited Credit Card Act relieves the consumer of any liability for charges made on credit cards not applied for in writing.

f. Other provisions of these acts and various Federal Trade Commission rulings provide additional protection for consumers as follows:

1) A credit card user has no further liability for charges made on cardit cards that have been lost or stolen, after he advises the issuer of the card of the loss. Whether he notifies the issuer or not, the consumer can only be held liable for $50.00 of such charges per card.

2) Credit card companies cannot prevent retailers from offering up to 5% discount for payment in cash for goods purchased.

3) The Holder in Due Course Doctrine has been abolished. Lenders who buy consumers' notes from retailers are equally liable with them and may have to refund payments made if a complaint filed with the Federal Trade Commission proves valid.

4) If a creditor repossesses goods for nonpayment, he must notify the consumer when and where his goods will be sold. The sale must be made in a reasonable manner. Violations of this ruling should be reported to the Federal Trade Commission.

5) The borrower has three business days to cancel loans (except for first mortgages) which put a lien on his home.

C. Summary and Evaluation

Summary Suggestions

At the end of your presentation you may wish to:

1. Give a general summary.
2. Answer any questions as time allows.
3. Administer a quiz designed to measure the accomplishment of objectives. If a quiz is given, review the answers and explain any areas where there seems to be a marked lack of understanding.
4. If an evaluation form is to be used, it should be distributed and collected at the conclusion of the presentation and questions.

MULTIPLE CHOICE-TRUE/FALSE QUIZ

1. Consumer credit is any extension of the use of money or the title to goods, by a lender or a vendor to a consumer, without an immediate exchange in cash or in kind.

   a) True
   b) False

2. The charge for the use of money or the money value of the goods involved is called:

   a) Interest
   b) Carrying charge
   c) Finance charge
   d) All of the above
   e) None of the above

3. Some of the advantages of credit use are:

   a) Make purchases without cash
   b) Take advantage of sale prices
   c) Allows for impulse buying
   d) All of the above
   e) a & b

4. When purchasing a produce through use of credit, product service suffers.

   a) True
   b) False

5. One disadvantage of credit use is to:

   a) Attain fiscal goals earlier
   b) Reduce future purchasing power
   c) Keep savings intact
   d) Establish a credit rating
   e) Use items while they are being paid for

6. Overextension of credit can lead to:

   a) Foreclosure on real property
   b) Repossession of purchased goods
   c) Garnishment of wages
   d) Bankruptcy
   e) All of the above

7. The advantages of credit use outweigh the disadvantages only when credit is properly used.

   a) True
   b) False

8. Which of the following is not a proper use of credit?

   a) Automobile
   b) Clothing
   c) Furniture
   d) Education
   e) Home

9. As a rule of thumb, all debts should be resolvable within five years.

   a) True
   b) False

10. Department stores and bank credit card plans are the principal sources of this kind of credit:

   a) Installment accounts
   b) Revolving charge accounts
   c) Single Payment Loans
   d) Open charge accounts
   e) None of the above

11. Bank Overdraft Loans are considered this type of credit:

   a) Sales credit
   b) Purchase credit
   c) Cash loan credit
   d) a & b
   e) None of the above

12. The highest rate of interest for cash loans is made by:

   a) Commercial banks
   b) Credit unions
   c) Insurance companies
   d) Finance companies
   e) Pawnbrokers

13. Lenders choose borrowers from applicants that they feel can be charged the highest annual percentage rate, and thus receive the highest return on their money.

   a) True
   b) False

14. Standard credit information, furnished by the borrower, does not include:

   a) Employment information
   b) Banking information
   c) Character references
   d) Legal actions
   e) Income from all sources

15. Which of the following consumer protection laws is also called the Truth in Lending Law and requires written loan agreements:

a) Equal Credit Opportunity Act
b) Fair Credit Reporting Act
c) Consumer Credit Protection Act
d) Fair Credit Billing Act
e) Unsolicited Credit Card Act

Answers:

1-a, 2-d, 3-e, 4-b, 5-b, 6-e, 7-a, 8-b, 9-b, 10-b, 11-c, 12-e, 13-b, 14-d, 15-c.

DISCUSSION QUESTIONS

I. What is credit?

   A. How do sales or purchase credit and cash loans or borrowing credit differ?

   B. What is the cost of using credit?

II. Should you use credit?

   A. State three advantages of using credit and explain why these are benefits.

   B. State three disadvantages of using credit and explain why these are costs.

   C. Explain why credit is properly used for long-lasting purchases but not for quickly used up items.

   D. What is debt consolidation and why should it be avoided?

   E. Why is it important to set debt limits?

   F. How do the common rules of thumb for setting debt limits work?

III. Who will get credit?

   A. Why do lenders evaluate the chances of nonpayment?

   B. What do lenders consider when they evaluate credit worthiness?

   C. What kinds of information will be requested from the credit applicant by the lender?

   D. What information does a credit bureau provide to the lender?

IV. Rights in the application process and when credit is denied--Federal Law

   A. What information must be made available to the individual who has been denied credit?

   B. What can an individual do to correct incorrect information in his or her credit file?

   C. Explain the prohibited bases of credit discrimination.

   D. What is a credit scoring system and how are individuals protected from a system's discriminatory effects?

E. What sources of income must be included in consideration of an application?

F. What is an adverse action and what rights does an adverse action trigger?

V. Types of credit and their sources

A. What is an installment sale?

B. What information must be disclosed in an installment sale?

C. Contrast an open charge account with a revolving charge account.

D. Why will finance charges for a revolving charge account vary from one store to another?

E. What is the difference between a cash loan and an extension of credit from a seller?

F. What are the different types of cash loan or borrowing credit and explain the differences?

G. List the sources of cash loan or borrowing credit.

H. Why do some sources charge lower rates of interest than others?

I. What would be the best sources of credit to

1. buy a home?
2. buy an automobile?
3. pay for a vacation?
4. get a small amount of cash in an emergency?

J. What are the advantages of the various sources of cash loan or borrowing credit?

K. What are the disadvantages of the various sources of cash loan or borrowing credit?

L. What information must be disclosed to an applicant for a cash loan?

VI. Cost of credit

A. What costs are associated with credit?

B. How do repayment terms vary?

C. What is the annual percentage rate and how can it help an applicant for credit?

D. Compute the APR for a $2,000 loan for 7 months, payable monthly, with interest of 7% for that time and fees of $25.

VII. Other Federal Law

A. How is an individual's liability for purchases made on his or her lost credit card limited?

B. Must a borrower pay a disputed amount while it is still in dispute?

C. What is the holder in due course doctrine and how has it been limited?

D. What rights does an individual have regarding repossessed goods?

E. May a company mail out credit cards without a written application?

F. For what type of credit is there a three day right of recision?

A P P E N D I X A

(Supplementary Slides)

Supplementary Slides

The slides listed below may be incorporated or substituted for slides in the body of the text of this module as appropriate.

The following table matches the new slides developed by the Tidewater Community College Title I Project with its appropriate slide from the modules developed by Northern Virginia Community College Project. Since the new slides do not have titles a description of their content is given.

TOPIC	MODULE SLIDE	NEW SLIDE
Credit	CC-2	credit with question mark in clouds
	CC-6	clock
	CC-9	man carrying credit sign
	CC-11	scale marking years
	CC-16	piggy bank with purchase or borrowing signs
	CC-39	men advertising loan rates
	CC-44	dollar sign with arrow through center

A P P E N D I X B

(Credit Counseling Services)

CREDIT COUNSELING SERVICES

Consumer Credit Counseling and Educational Service of Northern Virginia
3541 Chain Bridge Road
Suite 3A
Fairfax, Virginia 22030
(703) 591-9020

Consumer Credit Counseling Service of Tidewater
Family Services Travelers Aid
222 19th Street West
Norfolk, Virginia 23517
(804) 622-7017

APPENDIX
C

CREDIT

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Assistant Professor of Business Administration
George Mason University
Fairfax, Virginia 22030

CREDIT

I. What is credit?

Objective: To understand what is meant by the term "credit".

A. Credit is money or purchasing power given in return for a promise to repay at a later time.

B. Using credit has a cost called a finance charge.

C. Cash loans or borrowing credit from a bank or other lender enables the borrower to have money available for purchases.

D. Sales or purchase credit enables the borrower to make purchases from a seller without having cash available.

E. Credit obtained by individuals or families for personal use are

1. Consumer loans used to purchase goods or services.

2. Mortgage loans used to purchase real property (e.g., homes).

II. Should you use credit?

Objective: To decide whether using credit is appropriate in a given circumstance.

A. Benefits - wise use of credit can enable consumers to attain their goals at an earlier time.

1. Immediate use of the items purchased rather than waiting until cash can be saved.

2. Large items can be paid for while they are being used.

3. Ability to buy during sales.

4. Convenience of not carrying large sums of cash, getting a monthly bill and a record of purchases.

5. To buy at current prices and repay with inflated dollars.

6. Establish a good credit rating.

7. To get better service from a merchant.

8. Keep savings intact.

B. Costs - unwise use of credit is a liability and can become a threat to financial security.

1. The finance charge - credit costs more.

2. Future earnings are committed so future purchasing power is reduced.

3. May encourage impulse buying and overbuying.

4. Develop a poor credit rating.

5. Overextension can lead to foreclosure of real property, repossession of goods, garnishment of wages and bankruptcy.

C. Proper uses

1. Quickly used up items such as food, clothing, entertainment, should be financed out of current income.

2. Long-lasting assets may be considered for purchase by credit.

a. Mortgage loans on homes.

b. Household loans for large appliances and home furnishings.

c. Home improvement loans for important repairs and additions.

d. Auto loans.

e. Education loans.

3. Credit may help in an emergency

a. Expenses caused by accidents, illness and death.

b. When income is interrupted.

c. While waiting for income which has been earned.

4. Debt consolidation is not usually recommended. Although payments are smaller, total cost will be greater as payments are made over a longer time.

D. Setting debt limits.

1. Questions to consider

a. Does my desire or need of the item justify being in debt for the payment period?

b. Will an additional liability jeopardize my ability to pay all other debts?

c. Will I be able to repay the loan out of future income and pay for all other living expense at the same time?

2. Common rules of thumb

a. Interest bearing debt (exclusive of home mortgage) should not exceed net worth (exclusive of home).

b. No more than 20% of disposable income should be needed to pay consumer loans.

c. All debts should be able to be resolved every three years.

III. Who will get credit?

Objective: To explain the criteria used by lenders in deciding whether to extend credit.

A. Lenders evaluate whether the level of risk (of non-payment) is within acceptable levels.

B. The acceptable level of risk will vary among different types of lenders and even among different lenders in the same category.

C. The availability of money will effect a lender's acceptable level of risk.

D. Creditworthiness (an acceptable level of risk) is measured by the three C's.

1. Character - trustworthiness and willingness to repay.

2. Capacity - ability to repay.

3. Capital - net worth including collateral.

E. The following information is usually requested from the applicant on a written application.

1. Personal information (person's name, birth date, social security number, address and number of years there).

2. Employment (type of job held and number of years there).

3. Income (yearly salary plus other income).

4. Banking information (checking and saving account locations and numbers).

5. Personal character references.

6. Signature attesting that all information is correct.

F. Large loans may require personal interviews.

G. Information furnished may be verified through phone calls.

H. Credit bureau report will be requested.

1. A credit bureau collects and sells information on an individual's credit history and credit worthiness.

2. Information contained in an individual's credit file.

a. All credit accounts presently outstanding.

b. Recentness of other credit usage and status of other accounts.

c. The largest amount extended.

d. Past due accounts and amounts.

e. Legal suits.

IV. Rights in the application process and when credit is denied - Federal law

Objective: To understand the legal rights of the individual who is applying for credit or has been denied credit.

A. Credit rating disclosure - Fair Credit Reporting Act

1. Individual denied credit can request the name and address of the issuer of the detrimental report, the reasons for denial,

and can either see the file or be told the information contained in the file.

2. Credit bureaus must delete incorrect information and give notice of the incorrectness to all who have received the information.
3. Adverse information may not be used after seven years.
4. Individuals contesting information which the credit bureau verifies as correct, may request the bureau to state the reasons supporting its action and name the verifier.
5. Credit related complaints in 100 words or less submitted by the individual must become a permanent part of his file.
6. Credit reporting agencies in violation of the law can be sued by injured individual who, if successful, can collect attorney's fees and court costs up to $1,000.
7. The Federal Trade Commission receives reports of violations.

B. Discrimination - Equal Credit Opportunity Act (ECOA)

1. Credit cannot be denied to a person because of sex, marital status, race, religion, or age.
2. Couples with joint bank accounts or joint debts may request that information concerning these accounts become the credit history of each person.
3. If creditors use a credit scoring system, it must be statistically sound, may not assign points based on sex, or marital status, or give the aged a lower score than any other age group.
4. Discouraging applications is illegal.
5. Income and past credit history are the only proper determining

factors.

6. Income includes alimony, part-time employment, wages, savings, and public assistance.

7. ECOA limits the asking of unfair personal information or the requirement of a co-signer when this would be discriminatory.

8. Lenders cannot ask applicant about the applicant's spouse unless the spouse is sharing the account.

9. Lenders must notify applicants of adverse action as soon as enough information exists to refuse credit.

10. Lenders must maintain records of credit denials.

V. Types of credit and their sources

A. Sales or purchase credit - purchasing power extended by a seller (merchant)

1. Installment accounts

a. Usually used for major purchases (cars, large appliances).

b. Repayment is over a series of months or years, and includes finance charges.

c. Truth in Lending Law (Consumer Credit Protection Act) requires the contract disclose in writing:

1. The annual percentage rate.

2. The total of all finance charges, including add-on charges such as loan fees, investigation fees, and required insurance.

3. The purchase price.

4. Any down-payment or trade-in allowance.

5. The net amount being financed with credit.

6. The size of weekly or monthly payments.

7. The due date of payments.

8. The total number of installments before the debt is entirely paid.

d. Seller often remains the owner until the buyer pays in full and if the buyer fails to pay as agreed, the seller can repossess the item.

e. Security agreement and recorded financing statement prevents buyer from selling or pledging item until payment is made in full.

f. Source department stores (12-16% APR)

2. Revolving Charge Accounts

a. Preapproved for purchases by a seller up to a credit limit.

b. Payments can be either a portion of the total owed or a fixed amount.

c. Payment within the normal billing period (usually 30 days) will not carry a finance charge.

d. Finance charges are usually based on the unpaid balance but will vary depending on the method of computation.

1. Credit charge before deductions for payments or credits for returned merchandise.

2. Credit charge after deduction for payments or credits for returned merchandise.

3. Average daily balance method.

e. The nominal annual percentage rate must be disclosed (usually 18% a year).

f. Source - retail store charge (usually 1 1/2% monthly on unpaid balance), bank credit card (usually 1 1/2% monthly

on unpaid balance).

3. Open charge accounts

a. Individual agrees to pay in full for purchases in a single payment within a certain time of being billed (usually 10 or 30 days).

b. No direct credit charge but prices may be higher due to this service.

c. Source - retail store charge.

travel and entertainment agencies.

(no interest if paid within time limit)

B. Cash Loans or Borrowing Credit - money lent by a lending institution

1. Types

a. Single-payment loans

1. Repayment in lump sum after a set period (usually 30, 60 or 90 days) or upon demand by the lender.

2. Evidenced by a signed promissory note.

3. Collateral may be required by the lender to serve as security for the loan.

b. Installment loans

1. Repayment over a specified number of payments.

2. Evidenced by a signed promissory note.

3. Collateral may be required by the lender to serve as security for the loan.

c. Ready-check loan credit

d. Bank Credit Cards (usually 1 1/2-2% monthly on unpaid balance)

e. Bank overdraft loans (usually 1 1/2-2% monthly on unpaid balance, 18-24% APR)

2. Sources

a. Commercial banks

1. Make small cash loans to consumers ($1,100 average).
2. Some signature loans; collateral often required (can be whole life insurance).
3. Serve low and medium risk customers.
4. Charge relatively low interest rates (10-14% APR 18% without collateral, 9-10% for passbook loans).
5. Usually monthly repayment installments.
6. Service fee for early repayment.
7. Interest amount may be discounted (deducted) from the amount of the loan before being lent.

b. Credit unions

1. Must be a member in order to obtain loan.
2. Low interest rates (8-12% APR).
3. Signature loans usually available.
4. Repayable through payroll deductions.
5. Limits on amounts that can be borrowed.

c. Savings and Loan Associations

1. Mostly for housing and real estate loans.
2. Relatively low interest (7-10% APR or more).
3. Passbook loans available.

d. Insurance companies

1. Policy holders can borrow up to 95% of cash value of policy without credit investigation.

2. Low interest rates (4-8% APR as specified in policy).
3. Face value of policy is reduced by amount of loan if death.
4. No time limit for repayment, no service fee for early repayment.

e. Consumer finance companies (small loans)
1. Serve the highest risk customers at highest interest rates (14-24% APR).
2. Service fees for early repayment.
3. Collateral required.
4. Limits on amounts to be borrowed, and length of borrowing set by State law.

f. Sales finance companies
1. Lending arranged through retailer (usually done for automobiles) but retailer is not making loan.
2. Serves higher risk customers at high interest rates (16-24% APR).
3. Collateral required (e.g., new car).
4. Service fees for early repayment.

g. Pawnbrokers
1. Security is surrendered to the pawnbroker until total repayment is made.
2. The loan is for 60-90% of the present value of the security.
3. Highest interest rates (30-36% APR).
4. Loan need not be repaid; if not, security will be forfeited.

h. Second mortgage companies

1. On personal residence.

2. Secondary to primary mortgage.

3. High rate of interest, maximums often set by state law.

3. Disclosure required - Truth in Lending Law (Consumer Credit Protection Act)

a. Must be a written agreement with a copy provided for the borrower.

b. Agreement must contain the following information:

1. Total finance charge.

2. Annual percentage rate.

3. When the finance charges begin.

4. The number of payments, their due date and amounts.

5. The total of all payments.

6. Penalties for default or late payments, or for paying ahead of schedule.

7. The nature of any security (collateral) held by the creditor.

VI. Cost of Credit

Objective: To estimate a loan's annual percentage rate (APR), to compare the costs of loans with varying terms

A. Borrowing of cash or of sales or purchase credit has costs

1. Finance charge

a. Interest charge.

b. Other fees (application fee, processing fee, premiums on credit life insurance).

2. Repayment terms

a. Maturity (length of loan).

b. Timing and size of required repayments.

B. Annual Percentage Rate (APR)

1. Gives the annual cost of finance charges computed as a percentage of the amount borrowed on a yearly basis.

2. Can be used to compare competing credit offers for the amortized loans (equal payments with the proportion of interest decreasing) paid on a regular basis (one payment or equal installments).

3. Formula for estimating APR

$$APR = \frac{200 \times F \times N}{L \times T}$$

F = total dollar finance charge

N = number of payments per year

L = amount borrowed

T = total number of payments plus one

VII. Other Federal Law

A. Fair Credit Reporting Act

1. If borrower notifies creditor immediately that credit cards have been lost, borrower will have no further liability.

2. If borrower fails to notify creditor about lost credit card, borrower's maximum liability will be $50 per card.

B. Fair Credit Billing Act

1. Report errors in writing on separate page from bill.

2. May choose not to pay questionable amounts, or for defective merchandise. Account cannot be closed during dispute.

3. If amount is correct, borrower will be liable for interest.

4. Complaints may be filed with FTC.

5. Borrower protected from harassment.

6. Credit card companies may not prohibit cash discounts by retailers; up to 5% cash discount is legal.

C. Federal Trade Commission ruling - abolishment of Holder in Due Course doctrine in consumer credit transactions

1. Defenses good against the seller will be good against lenders who took loan from the seller.

2. Lender may have to refund past payments.

3. Consumer may file complaints with Federal Trade Commission.

D. Federal Trade Commission ruling - repossessed goods

1. Creditor must inform you of the sale of your repossessed goods.

2. Sale must be made in reasonable manner.

3. Consumer may file complaints with Federal Trade Commission.

E. Unsolicited Credit Card Act

1. Illegal for a company to send you a credit card without a written application.

2. Consumer not responsible for illegal use of cards issued in violation of law.

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Equal Credit Opportunity Act
Fair Credit Billing Act
Fair Debt Collection Practices Act
What Truth In Lending Means To You
Federal Trade Commission, Washington, D. C. 20580.